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ABSTRACT

Although the number of people in developing nations who are too poor to provide themselves with an adequate diet is rising, this is not reason to assume that such poverty is inevitable. Strategies that foster economic growth and include poor people in the growth process can be found in countries with such diverse political and economic systems as China, Korea, India and Pakistan. The situation is bleakest in Sub-Saharan Africa, where poor medical care, high birth rates, falling food production, little education, inefficient investment, and drought have contributed to political instability and growing poverty. Yet other areas, which had an equally bleak outlook not long ago, are now reducing poverty. The World Bank's experience is that economic growth is necessary for poverty reduction. However, the worst recession in over 40 years has left most developing nations with severe balance-of-payments problems. Regaining financial stability and then reviving economic growth have become urgent priorities. Official development assistance is essential for economic growth. These elements must be combined with more effective use of donor resources and programs that will accelerate growth and concentrate the increase in incomes among the poor. (IS)

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POVERTY IN THE DEVELOPING COUNTRIES -- 1985

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As Prepared for Delivery

By

A. W. Clausen, President

The World Bank

and

International Finance Corporation

at the

Martin Luther King Center

Atlanta, Georgia

January 11, 1985

SP 016 153

Mrs. King, I deeply appreciate your invitation to participate in this week's events in honor of your late husband. It is in keeping with the spirit of Dr. Martin Luther King that we honor him by grappling together with the problems of poverty and hunger as they confront us now, in 1985.

Until recently, the proportion of people in poverty has been declining in all the regions of the developing world except Sub-Saharan Africa. But the proportion of the world's people in poverty has gone up again during the last few years.

The World Bank is just completing a country-by-country review of poverty throughout the developing world. In the first half of my remarks, I'd like to summarize what we've learned. In the second half of my remarks, I intend to outline a strategy for the reduction of poverty that combines measures to foster economic growth with special efforts to include poor people in the growth process.

In line with this symposium's concern about hunger, my focus of attention today is "absolute poverty." By absolute poverty we mean that people are too poor to obtain a "calorie-adequate diet." We use World Health Organization guidelines regarding the number of calories people need to lead a reasonably productive and energetic life. People whose diet is calorie-deficient don't have much energy to spend -- to earn a living or do anything else. When families fall substantially below this standard, children are more vulnerable to disease; they are more likely to die in the first years of life, or, if they live, to be stunted physically and mentally.

Some people imagine that poverty in developing countries is a hopeless situation, that progress is impossible. This image of the world is demonstrably false. But our survey of poverty in 1985 doesn't give us any cause for complacency either.

The situation is most bleak in Sub-Saharan Africa. In nearly all the nations of Africa, one-half to three-fourths of the population subsists in absolute poverty. Statistics about the number of people in absolute poverty can only be very approximate. But the poverty is no less deadly because we can't measure it precisely:

> In Gambia, for example, over half of all rural children die by age 5.

> In Guinea-Bissau, almost the entire population suffers from malaria and diarrhea. Sixty percent of the people in Guinea-Bissau suffer from respiratory infections.

> Even in Nigeria, with one of the highest per capita income levels of Sub-Saharan Africa, over a third of urban families and over half of rural families are unable to obtain a calorie-adequate diet.

For Sub-Saharan Africa as a whole, life expectancy at birth is 49 years, compared to 75 years in the world's industrial countries. There is still only one nurse for every 3,000 Africans, one doctor for every 21,000 Africans; here in the United States, we have one nurse for every 140 people, one doctor for every 520. Of the school-age children in Africa, one in five is not enrolled in school.

As low as these indicators of health and education in Africa are, they were even lower two or three decades ago. The number of doctors and nurses in proportion to population has doubled since 1960. The proportion of children in school has also doubled since 1960.

But in the early Seventies, average income began falling in the poorest countries of Africa. Food production fell behind population growth. Today, even if all the food available in Africa, including imports, were divided equally, it wouldn't be enough to meet minimum per capita calorie requirements.

Population growth in Africa is higher than anywhere else in the world -- and it's accelerating. The efficiency of investment in Africa is lower than anywhere else in the world -- and it's declining.

Economic malaise has contributed to mounting political instability. Violence within and between nations has increased, and, mainly as a result, one in 200 Africans today is a refugee.

The global recession has accelerated the process of economic decay in Africa. Some African governments aren't able to provide basic services like road maintenance anymore or, for that matter, even pay their own employees regularly.

Then, in addition to all these other problems, drought struck much of Africa beginning in 1982. Officials from the U.S. Agency for International Development and from some of the private relief agencies are here today. We congratulate them for their emergency labors to get food to victims of famine in Africa.

But the leaders of the relief effort will be the first to insist that emergency relief is not enough. We must act with equal vigor to tackle Africa's long-term development problems. Otherwise, we are bound to see deepening poverty -- mass starvation again and again -- in Sub-Saharan Africa.

By contrast, let me turn now to two developing regions of the world that have been making impressive progress against poverty: East Asia, including China, and the Mediterranean.

Not so long ago, these regions were characterized by widespread, miserable poverty. But now the bulk of their people have enough to eat, substantial improvements have been made in infant mortality and life expectancy, and virtually all children go to school. Poverty is still pervasive only in remote areas, like the two Yemens, or in countries scarred by war, like those of Indochina.

The People's Republic of China is a special case. It is much poorer than the rest of East Asia, but China has eliminated the worst aspects of poverty. Notwithstanding much progress, the government still considers about one-fifth of China's population to be unacceptably poor.

Redistribution of wealth has helped to reduce poverty in several countries -- including China, of course, but also including a country as capitalistic as the Republic of Korea. And most of the developing countries of East Asia and the Mediterranean have also made special efforts to help the poor on an ongoing basis -- through the expansion of public education, for example. But it is no coincidence that these regions have also been characterized by economic success generally. Rapid and sustained economic growth has been basic to the reduction of poverty in East Asia and the Mediterranean.

Most of the developing countries in East Asia and the Mediterranean have maintained special efforts to reduce poverty throughout the recent recession. And now that their economies are growing again, we can expect them to make further progress in reducing poverty.

The world can also take encouragement from the development saga of South Asia. Only 20 years ago, the prospects for South Asia looked as dismal as the prospects for Africa seem right now. Yet South Asia has made some progress against poverty.

In the 1960s, India and its neighbors were forced to import massive amounts of food, especially in years of bad weather. There was every reason to be concerned that population would continue to increase faster than food production. We had visions of endemic famine and violence in South Asia. But most of South Asia has achieved food security through the "green revolution." Economic growth has more than kept pace with population growth, and India and Pakistan have managed to establish large industrial sectors.

Pakistan is the only country in the region that actually reduced the number of its citizens in poverty during the 1970s. India reduced the proportion of its population in poverty, but, because of population growth, the number of poor people increased. Sri Lanka has long scored relatively high on indicators of social welfare, but at the other extreme is Bangladesh -- where more than three-quarters of the population remains trapped in absolute poverty.

South Asia still includes at least half of the world's poorest people. Yet the heroic efforts of the last 20 years have averted what could have been a nightmare, and parts of South Asia have demonstrated economic promise.

Average per capita income in Latin America is higher than in the developing countries of East Asia. Yet the incidence of absolute poverty in Latin America remains disproportionately high. There is little absolute poverty in countries like Argentina or Costa Rica. But poverty is still a serious problem in most of Latin America, and the region includes countries like Bolivia and Haiti where the extent of poverty is not much different from Sub-Saharan Africa.

Latin America was dealt a body blow by the international debt crisis. In Mexico, for example, real wages fell 25 percent between 1981 and 1983. In Chile, urban unemployment reached 30 percent. The nations with the biggest debts have now all adopted economic adjustment programs and arranged to reschedule their debts, but some of the smaller countries seem to be floundering.

Poverty has become more severe and widespread throughout Latin America and the Caribbean, and the prospects are grim in those countries that can't settle on reasonable programs of adjustment.

So then, the historical record shows that progress against poverty is possible. But progress is probably more difficult as we enter 1985 than it has been for decades.

* * *

The World Bank has been in the business of development for nearly 40 years, and the Bank has been making focused efforts to reduce poverty for nearly 15 years. So permit me now to highlight a few important lessons from the Bank's experience. They may contribute to today's fresh thinking about how best to proceed in the historic struggle to reduce poverty around the world.

In our experience, economic growth and poverty reduction are aspects of the same process. Poverty is too widespread in most developing countries to be solved by redistributing income or assets from the rich to the poor. In those countries that have redistributed assets but then failed to achieve economic growth, poor people have remained in misery. So when The World Bank first started to really focus on poverty in the early 1970s, it urged continued efforts to accelerate economic growth in the developing countries.

But it also urged special efforts to include low-income countries and low-income people within countries in the process of growth. Together with other development agencies, the Bank directed more development assistance to the low-income developing countries. And the Bank also helped to develop methods of raising the incomes of poor people through improvements in productivity and efficiency.

Experience has demonstrated the fundamental soundness of this approach. It has proved possible to make high-growth investments in very poor countries. And the Bank's poverty-focused projects have shown that it is possible to reduce poverty, not only by income transfers, but also by drawing the poor directly into the growth process.

Since most of the world's poor live in rural areas, the Bank raised the share of its lending for agriculture. And we have seen that peasant farmers will indeed expand their production if they have the means and incentives to do so. The means include improved seeds, a good extension service, and public investments in rural roads and irrigation. The incentives must include realistic prices for what they produce.

We have had more project failures in agriculture than in any other sector, and the failures have been concentrated in Africa. But even with the failures, the Bank's agriculture projects have averaged economic rates of return above 20 percent. Projects where more than half the benefits went to families in absolute poverty have also averaged high rates of return.

Among the urban poor, our most successful approach has been to invest in low-cost housing, slum improvement, and the extension of water and sewerage systems. The World Bank has helped to develop technologies for shelter and sanitation that are affordable to poor people. And we have found that one of the best things governments can do for the urban poor is, simply, to relax unrealistic building regulations. In country after country, when slum dwellers were finally convinced that bull-dozers wouldn't demolish their settlements, they have made dramatic improvements in their homes.

Commitment to the poor need not imply a bias against the private sector. The Bank's rural and urban development projects have helped to reduce poverty partly through encouraging deregulation -- higher agricultural prices and less restrictive building codes. There is no more powerful force for progress against poverty than the initiative and ingenuity of poor people themselves.

But selective government intervention is necessary, too. Public education, especially elementary education, yields very high economic returns in developing countries. And government action is also needed to improve and extend health and family planning services more widely. There are an estimated 65 million couples in developing countries who don't want more children but still don't use contraception, often for lack of access to effective contraceptives.

We have not found very effective ways to raise the productivity of the poorest 10 to 20 percent of the population -- landless laborers, for example. And some of the very poorest people in any society are sick or handicapped and will always need help from relatives or from society as a whole. By and large, however, our experience has confirmed that the goals of economic growth and poverty reduction can be entirely complementary.

But then came the worst recession in over 40 years. Most developing countries have been confronted with severe balance-of-payments problems. Average per capita income has stagnated, and in many countries it has actually declined.

For most developing countries, regaining financial stability and then reviving economic growth have become urgent priorities. For poor people too -- perhaps especially for poor people -- financial and economic recovery are vital. Poor people suffer terribly under conditions of general economic decline.

The nations of the world are all knit together through international trade, capital flows, and transfers of technology. So revival of economic growth in the developing countries depends partly on the economic policies of the world's industrial countries. If the industrial countries manage to maintain their own economic expansion and resist the pressures to protectionism, the developing countries will be able to increase their export earnings, and no one factor is more important to Third World growth. Lower interest rates are also of vital concern to the heavily indebted countries. In addition, the industrial countries can help by encouraging a revival of international investment -- by commercial banks and private corporations, and also through official channels such as The World Bank.

And, of course, economic growth in the developing countries depends very much on their own efforts too.

On the whole, the developing countries have adjusted to recession and the debt crisis remarkably well. They were forced to cut back drastically on imports and incomes, but many countries have managed to cut back in an orderly way and, therefore, reduce the destructive impact of the crisis.

Some countries have, simultaneously, eliminated long-standing inefficiencies in their economies and shifted resources into export products. Such adjustments in economic structure may add to the short-term hurt, but they do help to rekindle growth in the long term. In many of the most hard-pressed developing countries, such structural adjustment is necessary to renewed economic growth -- and renewed economic growth is necessary for progress against poverty in the years ahead.

But also now, in 1985, we should make special, focused efforts to generate growth among low-income countries and low-income people within countries.

To accelerate growth among the low-income countries, one essential ingredient is official development assistance.

Eighty percent of the resources the World Bank provides to developing countries -- virtually all of our loans in the middle-income developing countries -- are on non-concessional terms. We raise the bulk of this money by borrowing on the international capital markets, and the developing countries pay it back to us with interest. But the poorest of the world's poor countries depend on official development assistance. The World Bank has a concessional affiliate, called the International Development Association (IDA), which provides credits to these poorest countries at zero percent interest for 50 years. IDA's funds are contributed by 33 donor nations.

But IDA is now severely under-funded. More generally, donor governments are redirecting their foreign aid money away from development purposes toward their own national security purposes, and away from the poorest of the poor countries to those developing countries in which they have greater commercial or political interests.

The net flow of official development assistance to Sub-Saharan Africa from all sources is declining dramatically -- hardly an appropriate response to the crisis in Africa.

The Bank has outlined an Action Program for Africa. It stresses that policy reforms by the governments of Africa themselves are fundamental to progress. Our Action Program also calls on the donor countries to use their aid more effectively and in a more coordinated way. Finally, it urges donor nations to at least keep the level of development assistance to Africa from falling.

Representatives of some of the donor governments will be meeting at the end of this month to consider a special Sub-Saharan Africa Facility within The World Bank. For people who are concerned about poverty in the world, the quality and quantity of development assistance for Africa should be an issue of high priority.

Progress against poverty in the years ahead will also depend on economic adjustment policies within the developing countries that distribute the costs and benefits of adjustment fairly.

Some governments have taken steps to protect the poor in the process of adjustment. In Brazil, for example, while wage increases have generally been held down below the rate of inflation, wages at the lower end of the scale have been allowed to keep pace with inflation. In Indonesia, the government has needed to reduce its public investment program, but it has given high priority to public investments that are important to the poor -- in agriculture, for example.

Programs to improve education, health, agricultural productivity, and municipal services among the absolute poor are difficult to get underway. If a government dismantles them in a budget-cutting exercise today, it will take years to build them up again.

It is possible, in designing adjustment programs, to identify policy reforms that will accelerate growth and, at the same time, concentrate the increase in incomes among the poor. Liberalizing trade encourages efficiency and growth, but it especially encourages labor-intensive industry in the developing countries and, therefore, more jobs for the poor. Raising agricultural prices stimulates increased production and, at the same time, benefits small-holder farmers. When government subsidies go mainly to relatively well-off people in the cities, cutting back will make the economy more efficient and, at the same time, reduce the tax burden on poor farmers.

The government of Zambia is pursuing a package of reforms that includes price decontrol, a more realistic exchange rate, wage restraint, and the reduction of subsidies. While these reforms have lowered the real incomes of some Zambians, especially in the urban areas and the formal sector, the majority of Zambians, who live and work in the rural areas, are benefiting from higher agricultural prices. And as part of the adjustment package, the government has also managed to increase spending on health and education and on public investment in agriculture.

The government of China has also let agricultural prices rise, and China's peasants now have more scope for private production. These reforms have led to a bonanza of increased agricultural production, and they have raised the incomes of most of China's poorest people by at least 50 percent over the last five years.

Progress against poverty in the world has suffered a set-back in the 1980s. But we now know from experience that progress is possible and that focused efforts to foster growth among the poor are workable.

* * *

As your husband so clearly showed us, Mrs. King, there is almost nothing as powerful as a dream. And we've seen that in developing countries, too.

It's hard to believe now, but a generation ago the prospects of Korea were regarded as dismal. The Koreans have proven the experts to be wrong.

Twenty years ago, recurrent famine and increasing violence in South Asia seemed all too likely. But India and Pakistan have achieved food security for hundreds of millions of the world's poorest people.

So then, now is the time to dream of an Ethiopia where people are well-fed from their own production. Now is the time to dream of a Gambia in which children will live to realize their full genetic potential.

I am not, by nature, a dreamer. I am a banker.

But the developing countries have already shown that mass, abject poverty can be eliminated. With redoubled efforts on their part, with continued assistance from us in the industrial countries, the elimination of absolute poverty is a feasible project.

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Now, 1985, is the time to dream together -- to work together -- for a world without hunger.

Thank you.